



OFFICE OF **MAYOR SAM ADAMS**
CITY OF PORTLAND

TO: City Bureau Directors

CC: Commissioner Fish
Commissioner Fritz
Commissioner Leonard
Commissioner Saltzman
Auditor Griffin-Valade

FROM: Sam Adams, Mayor

DATE: November 16, 2010

SUBJECT: FY 2011-12 Budget Preparation Guidance

Since the beginning of the economic downturn in the late summer of 2008, Portland has taken a number of proactive steps to stay ahead of the recession (see Exhibit A). The City has made targeted cuts to reduce ongoing expenditures, judiciously used one-time funds to smooth out the worst of the service cuts, and implemented spending controls and a hiring freeze to further reduce City spending.

The City avoided using its General Fund reserves, which helped maintain a AAA bond-rating and has kept the reserves available in case we experience a worst-case, double-dip recession. We were also able to make strategic investments in programs that assist those most in need: homeless services and housing assistance, business assistance and economic development, and capital projects that create jobs.

These actions, and your bureau leadership throughout the process, have allowed Portland to remain fiscally resilient. Although the City has made significant, sometimes painful cuts to its programs, these cuts are not as deep as they would have been had we not taken swift action.

Budget Outlook

The Office of Management and Finance will present its five-year General Fund financial forecast to City Council on December 8th. In advance of that forecast, however, there are a few key positives:

- The City ended FY 2009-10 with an additional General Fund balance of \$9.7 million. As part of the Fall BMP, Council increased its contingency funds, set aside money to address the upcoming wave of public safety retirements, allocated \$2.4 million for urgent infrastructure maintenance and replacement projects, and set aside \$3.9 million for next year's budget.
- Property tax revenues and utility license fees continue to be stable, and business license revenues are above forecast.
- Although PERS rates increased significantly, they came in slightly lower than forecast, and we are seeing interest rate savings on the City's pension obligation bonds.
- Due to a change in how the City recognizes accrued revenue in its budget forecast, there may be one-time resources available over the next few years.



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Even with these positives, however, the national economic recovery is anemic and significant risks remain. The state government is experiencing a dramatic budget deficit that may have downstream impacts; federal stimulus funding is likely to decline over the next few years; PERS costs will almost certainly increase again in FY 2013-14; the City still has a large number of ongoing programs that are funded with one-time resources; and a double-dip recession is still a possibility.

Budget Directions

Therefore, I am asking bureaus to prepare modest program cuts for FY 2011-12. It is not clear at this point whether we will need the cuts in order to balance, but preparing cuts now will give bureaus time to fully vet the reductions with their stakeholders and the public, and ensure that we continue down a financially sustainable path. Bureaus should prepare the following as part of their FY 2011-12 Requested Budgets:

- **Public Safety bureaus** (Police, Fire, BOEC, POEM, and PSSRP operating): 0.75% one-time reductions.
- **Non-Public Safety bureaus** (Attorney, Auditor, Cable, Government Relations, Housing, Human Relations, OMF general fund, Mayor and Commissioners, ONI, Parks, BPS, Special Appropriations, and PBOT general fund allocation): 1.50% one-time reductions.
- **Non-General Fund rate-supported bureaus** (Water, BES, OMF Internal Service Funds): 1.50% one-time reductions, based off of FY 2011-12 current appropriation level targets.
- **Non-General Fund fee-supported bureaus** (BDS, PBOT, FPD&R): No reductions.

In addition to these reductions, bureaus will not be allowed to submit add packages for new or expanded programs or services. Bureaus may request one-time funding to continue existing one-time funded programs or services, but those requests need to be made directly by the Commissioner in charge of your bureau. New programs will only be allowed if they are achieved through efficiency savings above and beyond the cut targets noted above.

For all bureaus, I encourage you to achieve your reductions through efficiencies and realignments wherever possible. While program cuts may be necessary as we enter our third straight year of reductions, we all need to remain open to new and innovative ideas, whether they come from bureau management, front-line employees, or the public. In addition, we should be asking basic questions about the services we provide:

- Is this something only government can do?
- Is it something the City of Portland should do at this time, or can/should it wait?
- Does it result in life-and-death impacts for citizens?
- Does it directly affect jobs or the local economy?
- Does this program increase taxpayer and ratepayer confidence in City government?



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Service Improvements

The most recent Service, Efforts, and Accomplishments survey shows a marked decline in the public's satisfaction with City government. Over the last five years, the percent of residents rating City government's overall job as good or very good has dropped 11 points, to 52%. Every bureau has developed a service improvement plan, and as part of the Mayor's Proposed Budget process I will be evaluating your progress against your plan, and asking you to set ambitious goals for service delivery.

In addition, I will continue to use the bureau baseline and program summary templates as a means of informing the public about services that are provided by each bureau and a method for tracking bureau performance. These templates have been revised this year to make them easier to use, and I have asked Financial Planning to add a section where bureaus can include a program-specific performance dashboard.

Geographic Budget Mapping

We are also making good progress in our mapping of City revenues and expenditures. I greatly appreciate the effort that bureaus have put into this difficult and ground-breaking exercise, and we will be rolling out a series of maps during this year's budget process. The maps are intended to both educate the public about the services that are provided, and also provide information on how we may be able to serve particular communities better. I look forward to having these conversations with the public during the FY 2011-12 budget forums, and continuing to improve and enhance the maps over the next year.

Neighborhood Outreach

Starting with the FY 2011-12 budget, I want to begin a new process of neighborhood outreach. I have asked Financial Planning to include in the next edition of the *Portland Curbsider* a brief survey that will help identify neighborhood concerns, nuisances, and other irritants. This initial effort is focused on issues that we hope to resolve with existing program resources. In addition to the survey, we will have tables at upcoming Portland Plan Fairs, as well as two forums to discuss the overall FY 2011-12 budget.

Summary

Due to your cost-cutting efforts over the last two years, the City has weathered what I hope is the worst of the economic crisis. Although there is still uncertainty about the local and national economy, I believe that by maintaining our current course – making necessary cuts and investing wisely in programs that directly serve citizens – we will emerge as a stronger, more efficient City.

I welcome your feedback, and look forward to working with you as we craft next year's budget.

Attachment A

Actions Taken

Attachment A provides a summary of the budget reductions that have been taken since 2008. The City took proactive steps to stay ahead of the revenue shortfalls to keep them from compounding into a larger problem.

FY 2008-09 Mid-Year: \$19 million gap (one-time)

- \$9.7 million of carryover funding
- \$3.0 million of contingency funding
- \$1.9 million debt service savings
- \$4.1 million General Fund reductions

FY 2009-10 Budget: \$8.9 million budget gap (ongoing)

- \$3.8 million Police
- \$2.2 million Parks
- \$2.1 million Fire
- 5.0% cuts to most other City bureau
- Non-GF: Large BDS and PBOT cuts
- \$14.0 million in additional one-time revenue from pension savings, lower bureau spending, and higher business license revenues. Funds were invested in housing, economic development, and youth programs

FY 2009-10 Mid-Year: \$2.0 million gap (one-time)

- \$635,000 reduction in ULF transfer to PBOT
- \$200,000 draw on contingency
- \$393,000 reduction to requests from OMF, Parks, and Police
- .20% across-the-board reductions to all GF bureaus

FY 2009-10 Mid-Year: Potential General Fund gap due to higher bureau spending and lower revenues

- Eliminate General Fund bureau compensation set-aside (roughly 3.4% of bureau's discretionary personnel costs)
- Implement spending slow-down
- Prohibit year-end carryover requests
- Reduce ULF transfer to PBOT by \$1.1 million
- Extend hiring freeze into FY 2010-11
- Allow for early implementation of FY 2010-11 cuts

FY 2010-11 Budget: \$5.9 million ongoing and \$5.9 million one-time reductions

- \$3.9 million Police
- \$2.0 million Parks
- \$2.5 million Fire
- 4.0% - 5.0% cuts for most other General Fund bureaus